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ABSTRACT

This paper provides a survey of accountability-related activities in states outside of California, summarizes the variables used, provides information on the advantages and disadvantages of various accountability systems, and suggests some policy recommendations that have been made in other states implementing performance-based funding. This report is based on the increasing focus on accountability within businesses and industries. Following a history of performance funding trends, the report differentiates between performance funding (or performance-based funding), which uses a formula to tie funding directly to specified indicators, and performance budgeting, which is more subjective and flexible in that it takes into account various areas of performance in determining an institution's overall appropriation. Four categories of performance funding indicators are presented: input indicators, process indicators, outputs, and outcomes. A list of the 10 most common performance measures for accountability is provided. These measures are: graduation rates, transfer rates, faculty workload/productivity, follow-up satisfaction surveys, amount of external or research funds received, remediation, pass rates on professional licensure exams, degrees awarded, placement data on graduates, total student credit hours, and number and percent of accredited programs. The report elaborates on the advantages and problems of performance-based funding. Finally, this paper provides several recommendations for implementing program budgeting. (JJL)

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# Accountability Measures:
## A Comparison
by
## Type and State

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June 30, 1999

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# ACCOUNTABILITY MEASURES: A COMPARISON BY TYPE AND STATE

## INTRODUCTION

In recent years, business and industry have focussed on accountability, as the Total Quality Management (TQM) and Continuous Quality Improvement (CQI) movements have taken hold. These have been followed by states seeking a similar paradigm shift wherein colleges are to meet the states' needs rather than the state meeting the colleges' needs. Different states have used a variety of indicators and differ in the strength of linkage between accountability measures and funding for higher education. This paper will provide a survey of activities in other states, summarize the variables used, provide information on the advantages and disadvantages of various accountability systems, and suggest some policy recommendations that have been made in other states implementing performance-based funding. Hopefully, these comments will be useful as California and the community colleges implement Partnership for Excellence, their performance-based funding program.

## HISTORY OF PERFORMANCE FUNDING TRENDS

Although the first state (Tennessee) adopted performance funding in 1979, no other states did so until 1995, when nine states adopted performance indicators and ten others considered it. In 1996, 14 states adopted performance funding; in 1997, 26 states planned to refine or expand current measures, 23 states used performance measures to inform consumers, and 23 states used performance measures to distribute funds. In 1998, all but five states indicated that they are likely to link some funding to performance within five years.

The numbers of indicators vary dramatically by state. For example, Florida has 40 indicators, South Carolina has 37, Colorado has 28, Arkansas has 14, Kentucky has 13, Tennessee has ten, Minnesota and Missouri have nine, and California has five. Some policymakers and educators see performance-based funding as a catalyst for change by shifting the focus to important goals, such as teaching and learning, while others see it as an effective means of receiving funding increases beyond inflation and enrollment growth.

## PERFORMANCE FUNDING VS. PERFORMANCE BUDGETING

The types of performance measures differ dramatically, with two major types that often are confused. They are:

- *Performance funding or performance-based funding*, which uses a formula to tie a specific sum directly to results of specific indicators (this is sometimes referred to as "pay for performance"). Ten states have adopted this approach, with eight likely to continue. With the exception of Tennessee, most states have a limited track record since their systems have been implemented only in the past four years. Performance-based funding represents about 2-3% of the overall support for higher education, but

for some states a relatively large percentage of the year's increase over the prior year. Most state policymakers believe that a relatively small percentage of the budget (usually 1 – 5%) allocated to performance-based funding can effect meaningful institutional change. While this type of performance funding is clear, it is inflexible.

- *Performance budgeting* is a subjective practice that takes into account various areas of performance in determining an institution's overall appropriation and gives legislators or other state officials discretion over how much to alter the college's bottom line. 42% of states (including California) have adopted this model. This type of funding is less clear than performance funding, but more flexible.

## Reasons for Adoption

Most states have adopted performance measures for one or both of the following uses:

- Twenty-three states use performance measures to inform consumers about higher education;

- Twenty-three states use performance measures to distribute state funds, with varying levels of specificity, to higher education institutions. (Of these, eight report a direct linkage with funds allocated for institutional performance on goals and measures, while the remaining fifteen report consideration of performance measures in allocating resources, but no direct linkage between the measures and funding.) An additional nine states report they do not use performance measures for budgeting but have plans to do so within the next two years.

Most states are similar to California in that the funding tied to accountability measures accounts for a small percentage — 2-3% on average — of most colleges' budgets, but represents a relatively large percentage of new funds infused into the system each year. For 1998-99, the $100 million of Partnership for Excellence money represents about 3% of the total budget, but more than 20% of new funds; in 1999-2000, the state will provide an additional $45 million for a total of $145 million, about 3% of the total budget, and 19 % of new funds.

## Types of Indicators

There are four categories of performance funding indicators:

1) *Input indicators* – human, financial and physical resources received to support programs, activities, and services. (These might include percentage of resources spent on instruction, or percentage of courses provided in individualized modules.)

2) *Process indicators* – means or methods used to deliver programs, activities, and services. (These might include technology, workforce training, assessment of student learning, percentage of classes taught by tenure-track faculty, faculty workload measures, and measures quantifying teaching quality.)

3) *Outputs* – quantity of products actually produced. (These might include the number or proportion of graduates or number of degrees.)

4) *Outcomes* – quality of the benefit or impact of program activities and services or results. These are difficult to measure since there are other related factors (such as incoming test score) which may influence outcomes.

## MOST COMMON MEASURES

A listing of the most common performance measures for accountability and consumer information follow.

*Most Common Performance Measures*
*(for Accountability)*

1. Graduation rates ----------32 states
2. Transfer rates ----------25 states
3. Faculty workload/productivity ----------24 states
4. Follow-up satisfaction surveys ----------23 states
5. Amount of external/research funds received ----------23 states
6. Remediation ----------21 states
7. Pass rates on professional licensure exams----------21 states
8. Degrees awarded ----------20 states
9. Placement data on graduates ----------19 states
10. Total student credit hours ----------18 states
11. Number and percent of accredited programs----------13 states

The most commonly-used performance measures for consumer information (in descending order) are: graduation rates (15 states); followed by degrees awarded, admission standards, and transfer rates.

## ADVANTAGES AND PROBLEMS

Performance funding is a reform effort that appears unlikely to recede because it has become a crucial part of the management revolution sweeping American's manufacturing and service sectors, the health-care industry, government, and education. When performance systems are designed and used effectively, faculty members and administrators can use them to strengthen and prove the value of their programs, as well as sharpen their competitive edge. But, the difficulties in implementing such programs are many and lead to a strong divergence of opinion between the program's defenders and its critics, with defenders often being state legislators or other policymakers who applaud its benefits and overlook its complications and faults; and its critics (usually from higher education) attacking its problems and ignoring its

benefits. As this occurs, the proponents focus on the ends and goals to be met, while higher education officials focus on the difficulties of measurement and implementation.

Among the *advantages* of performance-based funding, it:

- Helps build support from political leadership for higher education;
- Serves as an incentive to improve performance through rewards (and possibly negative consequences);
- Provides an alternative that can be more effective than inflation and enrollment-based funding;
- Fosters both external accountability and institutional improvement;
- Encourages campuses to become more client- and less provider-centered, thus moving the emphasis from teaching to learning;
- Connects the planning and budgeting processes;
- Serves as an image and credibility builder to reinforce confidence in higher education;
- Allows decentralization without loss of accountability; and
- Results in better communication between campus and state/political leaders.

Among the *disadvantages or difficulties* are:

- Balancing institutional autonomy with state level review and control, and the need to avoid micro-management;
- Properly addressing the complexities of measuring quality, particularly in student learning;
- Creating conflict if institutions reduce standards in setting goals;
- Finding measures that adequately reflect differences in institutional missions and in entering student characteristics;
- Subjecting higher education to shifting state priorities instead of responding to long-range academic and institutional goals;
- Punishing poor or urban institutions or those with more diverse student bodies;
- Favoring traditional over non-traditional campuses (due to greater ease of measurement), thus potentially diminishing campus diversity;
- Creating excessive costs for data collection and analysis;
- Measuring intangible elements that colleges and universities seek to teach their students, including learning to think, imagine, persevere, see connections, and live a moral life;
- Producing budget instability and uncertainty;
- The tendency to stress efficiency over quality;
- Financing during bad fiscal times, when money set aside for performance bonuses could be better used to finance basic operations;

- Determining the appropriate benchmarks for "graduation" or "pass" rates, which don't reveal how such objectives are achieved;
- Distortions which can be created through the motivation of explicit financial rewards instead of a commitment to public purpose; and
- The tendency of complex systems to collapse under their own weight.[1]

## RECOMMENDATIONS/SUGGESTIONS FOR IMPLEMENTATION

Commentators have reviewed the implementation of program budgeting in other states which have implemented performance funding and make the following recommendations:

1) Trustees, faculty, students, parents, and policy leaders need regular exposure to information to easily understand it.

2) Variables often need to be complex to be accurate and appropriate, but this can result in documents that are largely unread. Thus, information in summary reports should be limited, with greater detail available as needed.

3) The practical problems of designing a system of performance measures are tremendous – performance measures must be acceptable to politicians and educators alike and balance institutional autonomy with state-level review and control, to ensure that this does not lead to micro-management of institutions.

4) Standardizing state goals for diverse institutions does not work; balancing systemwide goals with unique or customized goals or measures is a more effective strategy.

5) Using quantitative measures exclusively negates important institutional processes; balancing good process goals (such as satisfaction surveys of students and alumni) with qualitative goals or measures is becoming more acceptable, especially as educators work to develop better direct measures of learning outcomes.

6) Real effectiveness occurs only when positive changes occur in teaching and learning.

7) Program priorities should remain in place for a minimum of four to five years, followed by evaluation and any necessary revision.

8) Collaboration at all levels is crucial to the success of performance funding.

9) Policymakers must realize that achieving noticeable results in higher education takes time (a minimum of four to five years); campus leaders must recognize that improving performance should not take unlimited time periods. States should

[1] In Colorado, an elaborate performance-based certification process for teachers was repealed because it took too much staff time and delivered few benefits. Also, the 37 measure performance-budgeting system in South Carolina currently is under review by the state's Higher Education Commission, which has begun soliciting comments from administrators at all two- and four-year schools as the system prepares to tie 100 percent of funding to outcomes.

consider using regional accreditation reports as an indicator for performance funding programs.

10) When choosing performance indicators, policymakers should reject the lingering belief that external accountability and institutional improvements – i.e., efficiency and quality – are inevitably conflicting, rather than complementary, goals. The chosen indicators should stress quality, quantity and costs of services to students, states, and society. The costs of data collection and analysis can be cut by confining the reporting requirements to a limited number of critical indicators.

11) Rather than harboring the illusion that performance funding is a cure-all for creating an accountable higher education system, state and institutional leaders should collaborate on devising a broad, powerful change agenda that addresses the crucial issues of whether programs and budget priorities meet the needs of the state.

12) Performance funding programs should place more emphasis on work-force training and part-time students, as these are central to the mission of community colleges.

13) Plans for institutional improvements that include thresholds and targets seem to be the fairest standard of success.

14) Small sums for performance funding (no more than 3-6% at the maximum) can be used to produce desired results without causing budget instability.

## CONCLUSION

Upon reviewing the recent history of performance-based funding in many states, most commentators believe that it will take root and become a standard means for apportioning at least a portion of higher education budgets. This belief makes it even more incumbent on educators to undertake the difficult task of designing, implementing, and assessing educational activities and improvements.

June 30, 1999

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